

MORTGAGE BANKING

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MORTGAGE BANKING

VOLUME 47 NO. 10
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ARTICLES

PAGE 8 MLP: THE LEADING MULTIFAMILY FINANCE VEHICLE

Sheldon L. Schreiber

This article describes how and why master limited partnerships are becoming the dominant force in multifamily finance for the rest of this decade. Profiles of different MLPs are provided.

PAGE 18 RENTAL RETIREMENT HOMES: HOW WILL THE MARKET FARE?

David S. Beckerman

Current trends in the residential mortgage industry may dampen future demand for rental retirement housing. Depletion of home equity will cause affordability of rental retirement housing to drop.

PAGE 26 FEDERALLY-ASSISTED HOUSING: NOW YOU SEE IT, SOON YOU WON'T?

*John K. McIlwain and
Patrice M. Pitts*

The availability of low-income housing may overshadow affordability as the leading low-income housing problem. During the next 20 years, the combination of expiring federal rent subsidies and the prepayment of mortgages on these types of properties could drastically reduce inventories, according to these authors.

PAGE 38 CONSTRUCTION LOANS: LENDERS BEWARE

Henry S. Kesler, CMB

To successfully navigate the inherent risks of construction lending, the loan decisions must be based on sound and thorough underwriting and aggressive administration poli-



cies and procedures. According to this author, construction lending is never over until it is over.

PAGE 45 FANNIE MAE'S MAJORS ENTER THE BIG LEAGUE

Robert J. Levin

Fannie Majors allow lenders to include their current production mortgages in a pool with other lenders' loans. If a lender contributes \$4 million in mortgages to a Fannie Major, the lender will receive a \$4 million share of that pool. Learn how multi-lender MBSs have advantages for investors, dealers and lenders alike.

PAGE 53 ONE STOP SHOPPING GUIDE TO MORTGAGE PROTECTION INSURANCE

Diane Gates

This article offers mortgage bankers a guide to mortgage protection service. It traces the history of mortgage pro-

tection service and details the different types of coverage available. It even offers suggestions on how to select a carrier.

PAGE 65 LENDERS' STRATEGIES FOR ENVIRONMENTAL LIABILITY

David Slutzky

Lenders have clearly been placed in a position of vulnerability by the Superfund Act. This article explains how to develop a policy to protect lenders from economic disaster due to contaminated sites.

PAGE 77 ASBESTOS: DEALING WITH AN EMOTIONAL ISSUE

Christine Boylan Carr

The heart of a lender's concern is not only the liability of a building containing asbestos but the value of the asset. Fixed-rate, long-term financing is available for buildings containing asbestos but only on a very select basis.

PAGE 81 BUSINESS BASICS SOURCES OF FINANCING FOR CONGREGATE HOUSING

*Arthur A. Habighorst and
John D. Hirschfeld*

This article details important considerations investors should know about insured sources of financing for congregate housing. FAA insurance provides the guarantees necessary to attract investor capital for retirement service centers.

PAGE 89 CONSTRUCTION LENDING: TODAY AND TOMORROW

This Round Table discussion was adapted from a popular panel held at the 1987 MBA Income Property Conference. Panelists discuss construction risks and methods for lessening those risks.

PAGE 101 THE LAST WORD (IF IT AIN'T BROKE, DON'T FIX IT)

Bill Sinclair

This thrift executive believes that neither the market nor the future of Fannie Mae and Freddie Mac should be dictated by a select few who are concerned about their own increased profit or gain at the expense of many.

DEPARTMENTS

ABOUT THE ISSUE	5
BUSINESS BASICS	81
PEOPLE	106
BOOKS	112
LETTERS	112
SECONDARY MORTGAGE MARKETS	115
MORTGAGE MARKET TRENDS	117
AD INDEX	126

MORTGAGE MARKET TRENDS

For the first quarter of 1987, the economy expanded at a robust annual rate of 4.4 percent. However, attention should be focused more on the composition rather than the magnitude of this gain. Growth was concentrated in only two areas—a substantial rise in inventory investment and a significant improvement in real net exports. All other components of GNP declined during the quarter. Efforts to control inventories, combined with the run-up in interest rates in April and May, suggest that growth of the economy during the second quarter was most likely very sluggish and should remain so during the third quarter. For both quarters, increases in real GNP should range between 1 and 2 percent.

In the first quarter, the single most important source of strength was a \$63 billion swing in business inventories, much of which was concentrated in automobiles. Auto production was cut in March and again in April, but production is now about even with sales so that excess inventories have yet to be reduced. Thus, further auto production cuts are likely as are additional or extended sales incentives. Other industrial sectors have also been reducing production during March and April.

The other significant source of growth in real GNP during the first quarter was the improvement in real net exports of goods and services. Imports decreased by \$6.2 billion while exports increased by \$4.6 billion, both in real terms. This resulted in an increase in real net exports of \$10.8 billion, the second consecutive quarter of improvement. This turnaround is the result of the steady decline in the dollar during the past two plus years, which has caused import prices to rise while giving U.S. exporters an opportunity to compete more aggressively in world markets. Continued improvement is expected during the rest of this year and 1988.

All the other components of GNP declined during the first quarter. Personal consumption expenditures fell for the second consecutive quarter. In both quarters, the declines occurred in durable goods purchases, primarily autos. This softness in consumer spending appears to be carrying over into the second quarter. In April, retail sales were up only slightly, and in May they fell by 0.6 percent.

Both components of non-residential fixed investment, structures and producers durable equipment, declined sharply in the first quarter. Spending on new structures is expected to continue to fall because of adverse changes in the tax code and the prevailing high vacancy rates for

income property. On the other hand, modest improvement in investment in producers durable equipment is expected during the remainder of this year.

Residential construction expenditures have continued the decline which began in the first quarter. In April, building permits fell by 7 percent, with the decline encompassing both single-family and multi-family units. Moreover, the recent jump in mortgage rates suggests that further weakness in this area lies ahead.

Inflation took a sudden jump during the first quarter, which contributed to the turmoil in financial markets. The Consumer Price Index rose at an annual rate of 5.3 percent in the first quarter compared to 2.9 percent during the final quarter of 1986. This advance in the rate of inflation is due primarily to the increase in oil prices in late 1986. The falling dollar has also contributed to the increase in inflation by putting upward pressure on import prices and allowing domestic producers to raise prices as well. However, with increases in wage rates expected to remain moderate and with oil prices beginning to stabilize, inflation is expected to subside somewhat in the coming months. For example, in May the Producer Price Index increased 0.3 percent compared to 0.7 percent in April.

The spike in interest rates that began at the end of March seems to be directly related to this increase in actual inflation which has renewed inflationary expectations. While they have recently retreated somewhat, long-term interest rates remain significantly above the levels that prevailed just two months ago. At the time of this writing (early June) yields on conventional 30-year fixed-rate mortgages are in the 10½ to 10¾ percent range. In light of the weakened state of the economy and the expected subsiding of inflation, mortgage interest rates may edge lower in the weeks ahead and then stabilize for the remainder of the year. However, if the dollar should fall sharply again, another increase in interest rates is not out of the question.

Slow overall economic growth and the recent increase in interest rates are expected to have a slightly negative effect on the housing market. Ultimately, the increased cost of mortgage credit will cause both home sales and then starts to decline from their present levels. By the end of the summer, 1- to 4-family housing starts may drop to an annual rate of 1.1 million units.

Robert Rosenblatt
Assistant Economist
June 11, 1987

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

HOUSING STARTS

PERMITS 17,000 ISSUING PLACES

YEAR AND MONTH	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1986												
NOV	116	83	33	1,637	1,200	437	109	72	37	1,667	1,122	545
DEC	114	80	34	1,813	1,341	472	132	82	50	1,862	1,289	573
1987												
JAN	105	75	30	1,816	1,332	484	102	69	33	1,652	1,181	471
FEB	103	76	27	1,838	1,379	459	101	76	25	1,676	1,313	363
MAR	143	109	34	1,749	1,311	438	150	109	41	1,719	1,244	475
1986 TOTAL	1,806	1,263	543				1,769	1,185	584			
1985 TOTAL	1,742	1,166	576				1,733	1,077	657			
4 MONTHS												
1987	514	387	127				512	373	139			
1986	562	380	182				564	365	199			
1985	522	355	167				518	332	186			
1984	549	384	165				558	362	196			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

STARTS

PERMITS 17,000 ISSUING PLACES

YEAR AND MONTH	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid- West	South	West	North East	Mid- West	South	West	North East	Mid- West	South	West	North East	Mid- West	South	West
1986																
NOV	22	20	43	31	273	275	608	481	19	21	41	29	267	300	613	487
DEC	19	19	39	36	309	394	602	508	21	19	43	49	284	303	567	708
1987																
JAN	16	16	44	29	336	431	589	460	14	14	41	29	286	362	568	436
FEB	10	14	45	34	291	371	675	501	15	16	43	27	319	388	577	392
MAR	22	24	56	41	296	356	615	482	25	26	60	41	317	335	624	443
1986 TOTAL	294	296	733	484					283	290	687	510				
1985 TOTAL	252	240	782	468					260	237	753	484				
4MONTHS																
1987	74	82	212	146					80	87	203	141				
1986	76	74	257	154					75	77	250	163				
1985	59	54	261	148					70	55	243	150				
1984	44	56	303	146					51	57	293	157				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES ¹	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
		Sold	Avail- able For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non- res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1986														
NOV	266	48	353	6.2	230.6	107.1	33.1	90.4	1,125	667	458	148	106	41
DEC	268	49	357	5.8	226.2	107.5	30.3	88.4	1,104	658	446	175	120	55
1987														
JAN	216	53	358	6.2	225.1	108.4	31.1	85.6	1,089	658	431	137	91	46
FEB	241	59	358	6.1	229.4	109.7	29.4	90.3	1,096	669	427	118	78	40
MAR	325	71	357	6.0	227.2	111.5	28.6	87.1	1,085	669	416	127	86	41
1986 TOTAL	3,565	749										1,756	1,206	550
1985 TOTAL	3,214	688										1,704	1,170	534
4 MONTHS														
1987	1,121	260										516	348	168
1986	1,044	288										503	345	158
1985	928	231										492	338	154
1984	912	234										435	290	145

LENDER ACTIVITY LONG-TERM MORTGAGE LOANS CLOSED By Type of Institution and By Unit Type (Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.
1986										
JUL	\$60,720	\$16,534	\$21,687	\$18,946	\$3,553	\$47,350	\$15,860	\$18,639	\$12,360	\$491
AUG	60,316	14,901	21,848	20,803	2,764	44,713	13,383	18,034	12,854	442
SEP	58,193	14,360	20,289	20,576	2,968	42,621	12,648	16,668	12,870	435
OCT	56,285	12,659	20,760	19,781	3,085	41,901	11,535	16,992	12,985	389
NOV	52,157	12,703	16,813	18,141	4,500	37,493	12,136	13,634	11,307	416
1986 TOTAL	603,948	142,884	218,118	205,503	37,443	438,441	131,628	176,063	126,936	3,814
1985 TOTAL	369,343	68,065	145,372	127,873	28,033	241,474	62,658	109,286	68,224	1,306
12 MONTHS										
1986	362,309	88,484	133,617	119,527	20,681	438,441	131,628	176,063	126,936	3,814
1985	221,217	42,705	89,760	74,201	14,551	242,112	63,296	109,286	68,224	1,306
1984	202,126	36,858	90,347	64,461	10,460	199,228	47,589	96,187	54,626	826
1983	179,373	43,386	66,210	60,976	8,801	197,527	59,672	81,524	55,605	726

LENDER ACTIVITY (Cont'd.)
LONG-TERM LOANS CLOSED (Cont'd.)
(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.
1986										
JUL	\$3,034	\$464	\$1,345	\$598	\$627	\$10,336	\$210	\$1,703	\$5,988	\$2,435
AUG	3,596	862	1,711	719	304	12,007	656	2,103	7,230	2,018
SEP	4,769	1,326	1,897	1,312	234	10,803	386	1,724	6,394	2,229
OCT	3,560	735	1,933	735	157	10,824	389	1,835	6,061	2,539
NOV	2,661	190	1,537	576	358	12,003	377	1,642	6,258	3,726
12 MONTHS										
1986	39,363	7,172	19,877	8,591	3,723	126,134	4,084	22,168	69,976	29,906
1985	28,392	2,746	15,612	7,262	2,772	99,941	3,114	20,485	52,387	23,955
1984	20,588	443	13,160	5,519	1,466	75,246	2,784	20,135	37,631	14,696
1983	16,169	566	8,521	5,485	1,597	60,965	3,102	13,837	30,410	13,616

LONG-TERM COMMITMENT ACTIVITY
By Type of Institution
(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.
1986										
JUL	\$45,221	\$10,430	\$23,101	\$8,853	\$2,837	\$137,634	\$27,902	\$53,058	\$36,389	\$20,285
AUG	50,492	10,930	20,522	16,183	2,857	167,546	28,195	51,546	67,517	20,293
SEP	48,050	11,297	19,442	15,024	2,287	159,746	25,320	51,957	62,601	19,868
OCT	43,470	8,959	19,202	12,593	2,716	138,410	17,784	49,878	51,605	19,143
NOV	35,692	8,263	17,111	7,554	2,764	129,766	20,974	48,994	40,726	19,072
1986 TOTAL	527,397	128,480	231,915	127,902	39,100					
1985 TOTAL	324,089	59,551	170,755	61,311	32,472					
12 MONTHS										
1986	527,397	128,480	231,915	127,902	39,100					
1985	324,089	59,551	170,755	61,311	32,472					
1984	258,986	44,893	146,184	47,065	20,844					
1983	249,401	70,128	123,361	38,195	17,717					

MORTGAGE INSURANCE
(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA ³	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1986												
OCT	249	128	38	83	162	\$11,293	75	\$4,556	28	\$2,024	59	\$4,713
NOV	201	101	38	62	191	12,960	112	6,927	32	2,257	47	3,776
DEC	215	111	39	65	176	12,313	88	5,531	39	2,768	49	4,014
1987												
JAN	208	120	41	47	175	12,143	95	5,864	38	2,718	42	3,561
FEB	243	153	42	48	n.a.	n.a.	n.a.	n.a.	44	3,255	33	2,812
MAR	307	190	49	68	n.a.	n.a.	n.a.	n.a.	60	4,420	39	3,339
1986 TOTAL	3,283	1,908	452	923	1,770	122,474	839	51,616	345	24,720	586	46,138
1985 TOTAL	2,194	902	251	1,041	1,261	83,305	338	19,784	192	13,046	731	50,475
4 MONTHS												
1987	n.a.	628	n.a.	242	n.a.	n.a.	n.a.	n.a.	182	13,414	158	13,511
1986	1,099	747	113	239	455	30,948	222	13,797	78	5,467	155	11,684
1985	636	246	65	325	368	22,687	93	5,215	51	2,360	224	15,112
1984	634	173	76	385	445	28,300	86	4,535	82	5,308	277	18,457

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC*				GNMA	
	Portfolio		Mortgage-Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued					Applications	Issued
1986										
NOV	1,811	2,549	93,525	5,636	8,926	9,356	9,862	10,540	13,319	9,612
DEC	1,272	2,336	97,174	5,494	7,993	8,742	11,306	11,579	10,377	12,123
1987										
JAN	948	1,346	101,687	6,363	n.a.	n.a.	n.a.	n.a.	13,932	10,624
FEB	912	979	104,670	4,691	n.a.	n.a.	n.a.	n.a.	11,668	9,692
MAR	2,805	1,435	107,673	4,627	n.a.	n.a.	n.a.	n.a.	10,873	10,736
1986 TOTAL	32,987	30,826	—	60,566	n.a.	n.a.	n.a.	n.a.	152,911	98,169
1985 TOTAL	20,225	19,848	—	23,649	44,085	46,762	44,012	44,085	64,360	45,868
4 MONTHS										
1987	7,873	5,877	—	22,678	n.a.	n.a.	n.a.	n.a.	51,523	42,986
1986	9,584	5,388	—	12,037	106,563	136,179	103,474	102,433	44,264	22,262
1985	6,751	7,273	—	5,676	44,025	56,689	44,012	41,454	14,741	10,683
1984	6,889	6,597	—	4,284	30,743	34,737	21,885	20,489	12,266	10,216

*FHLMC Year to date totals are periods Jan.-Dec. 1984-1986.

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES						APARTMENTS ⁵	
	FHA OPINION SURVEY			FHLBB SURVEY		FNMA		
	FHA New ⁴	CONVENTIONAL New	CONVENTIONAL Existing	CONVENTIONAL New	CONVENTIONAL Existing	1 Yr. ARM (1%/Yr.)	FRM Conv.	
1986								
DEC	9.21%	9.33%	9.36%	9.69%	9.65%	7.94%	8.973%	11.09%
1987								
JAN	8.79	9.09	9.10	9.51	9.53	8.31	8.815	10.81
FEB	8.81	9.04	9.04	9.23	9.21	8.48	8.668	10.25
MAR	8.94	9.19	9.20	9.14	9.09	8.06	8.633	10.24
APR	10.02	10.11	10.14	9.21	9.09	8.35	9.655	12.08

CURRENT SECONDARY MARKET YIELDS

YEAR AND MONTH	GNMA ⁶	FNMA ⁶	FHLMC ⁶
1986			
DEC	8.40%	8.48%	8.50%
1987			
JAN	8.22	8.31	8.26
FEB	8.06	8.21	8.17
MAR	8.12	8.25	8.22
APR	9.06	9.13	9.08

SELECTED SECURITIES

A-Rated ⁷ Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
9.08%	7.11%	5.53%	6.10%
8.92	7.08	5.44	5.84
8.82	7.25	5.59	6.05
8.84	7.25	5.59	6.16
9.51	8.02	5.90	6.45

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1986				
DEC	29	129	137	139
1987				
JAN	-13	114	123	118
FEB	-1	81	96	92
MAR	10	87	100	97
APR	51	104	111	106

NA—Not available; p—Preliminary

¹From the National Association of Realtors "Existing Home Sales" series

²Mutual Savings Banks and Commercial Banks.

³FHA applications received includes the Direct Endorsement Program starting in 1984.

⁴Secondary market gross yields.

⁵Federal Home Loan Mortgage Corp. Existing Construction only.

⁶Securities for 0 to 30 day delivery.

⁷Prior to January 1984 this rate was for Aaa-rated Utility Bonds.

⁸Year-to-date seasonally adjusted series not calculated.

⁹1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.